

4.3 Cost Proposal

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4.3 Cost Proposal

The Cost Proposal form attached to this RFP as Attachment 12 shall be completed on the Microsoft Excel spreadsheet. Attachment 12 must be completed with the assumption that all of bidder's opposition to contract terms as set forth pursuant to Section 6.1 will be rejected. Contract term changes will be negotiated during the evaluation process and before the bidder's submission of any Best and Final Offer.

Bidders should note that the Department is seeking to award the ultimate contract to a bidder based on a fixed price. Bidders should bid with the assumption that the underlying program may expand or contract over time. Therefore, bids should take into consideration bidders best estimate of program variations. The ultimate contract entered into by the Department will be subject to increase only upon the vendor establishing that the vendor's obligations under the contract have increase by more than fifteen percent (15%) in any given state fiscal year.

Bidders are directed in the cost proposal form to identify a per member per month ("PMPM") value that will be used to calculate increases in vendor compensation in the event of contractually-permitted increases. In the event that the vendor proves to the Department's satisfaction that the contractor's obligations have increased by the requisite percentage in any given state fiscal year, the contractor's monthly payment will be increased by the increase in member enrollment, as set forth in the Special Terms section of the Contract attached to this RFP as Attachment 13.

The cost proposal form (Attachment 12) shall not be labeled as confidential per Section 2.12.13. The bidder shall include a detailed description of the costs in a separate document. This detailed document may be identified as confidential if consistent with applicable law.

Each section listed below shall be scored separately. See Section 5.4.3 for how the cost proposal will be scored.

HMS is proud to offer a comprehensive solution that not only meets but also exceeds many requirements of the RFP, at a reasonable price. Our relationship with the Department through this engagement will be our "showcase" SCHIP contract, as HMS has committed the time, money, and resources required to achieve this goal.

HMS is pleased to present our costs for services outlined in this RFP. These costs will include implementation and operations costs, the hourly rate for Change Service Requests (CSRs), and the per member per month (PMPM) rate to be used to calculate increases in HMS's fee for contractually-permitted membership growth.

There is no part of this cost proposal that is labeled as confidential. We have utilized **Attachment 12** of the RFP – Cost Proposal Form, which was updated in Amendment 1 to the RFP, to document our costs. This attachment is located at the end of this Cost Proposal.

4.3.1 Implementation Costs

Examples of implementation costs may include equipment purchases, furniture, moving and transportation expenses, data line set up, and initial system development and programming costs. The bidder shall identify the items that will be included in its implementation phase and the costs associated with each item. These costs shall be pro-rated over the base term of the contract on a monthly basis beginning the month in which the TPA begins providing operational administrative services required under the contract, which shall be on January 1, 2009. If the Incumbent Contractor elects to submit a bid, the Incumbent Contractor shall not include any implementation costs in its proposal. See Section 5.4.3 Scoring of Cost Proposals.

The total implementation costs that HMS will charge the Department is \$1,197,156.15. These costs include:

- Salary and benefits for implementation staff
- Hardware and software required for the Des Moines-based staff
- Software licensing costs for ImageNow (our document imaging solution), PeopleSoft (our premium management application solution), and our call monitoring software for our customer service team
- Furniture and moving expenses related to our proposed office location in the greater Des Moines area
- Lease costs for our Des Moines office during implementation
- Data connectivity charges for line set-up, installation, and operation during implementation
- Programming costs for data migration activities only
- Travel costs for implementation staff
- Administrative costs (including training, supplies, and other administrative expenses)

As stated in our Executive Summary, a significant part of our cost will be the customization of HMS's software solution, **KIDConnect**. HMS views this as a corporate investment and has not opted to pass associated expenses on the Department. Our commitment to Iowa results in an aggressively priced solution that will benefit the Department and the taxpayers of Iowa.

The implementation costs do not include postage to be paid by the Department for any mailings that need to be processed prior to the January 1, 2009 operational effective date. As documented in **Section 3F.4** of the RFP, HMS will submit a monthly invoice to the Department for postage expenses incurred for mailing materials that HMS is responsible for disseminating.

As defined in the RFP, these implementation expenses will be pro-rated over the base term of the contract, beginning January 1, 2009. Therefore, the Department will reimburse HMS implementation costs of \$39,905.21 each month during the initial 2.5 years of base operations.

4.3.2 Monthly Operations Costs

Monthly operations costs will be paid beginning January 1, 2009 when the TPA begins providing operational administrative services required under the contract. Examples of monthly operational costs may include, but are not limited to, costs associated with rent, utilities, salaries and benefits, employee training, supplies, system maintenance, processing applications and eligibility determinations, Health and Dental Plan enrollment, data management, reports, customer service, premium billing and collection, and conducting surveys. The bidder shall identify the items that will be included in its monthly operational costs and the costs associated with each item.

The total operations cost for the 2.5 base years of this contract is \$3,412,622.35. The monthly rate is broken down as follows:

- Base Year 1 (beginning January 1, 2009) - \$126,794.71 per month
- Base Year 2 (beginning July 1, 2009) - \$107,348.21 per month

- Base Year 3 (beginning July 1, 2010) - \$113,639.63 per month

These costs are for the support of application processing, eligibility determination, customer service, mailroom operations, premium billing and collections, reporting, system maintenance, Health and Dental Plan enrollment, survey processing, and quality assurance, and include the following:

- Salary and benefits for operations staff
- Expenses for yearly SAS 70 audits
- Lease costs, utilities, and data and telecom connectivity for our Des Moines office
- Administrative costs (including training, supplies, travel, system maintenance, and other administrative expenses)

Given the importance of ensuring a successful transition, Base Year 1 includes additional expenses dedicated to facilitate a smooth transition from the incumbent vendor, including but not limited to salary, benefits, temporary staff, and travel.

The operations costs do not include postage to be paid by the Department for any mailings required in the RFP. As documented in **Section 3F.4** of the RFP, HMS will submit a monthly invoice to the Department for postage expenses incurred for mailing materials that HMS is responsible for disseminating.

4.3.3 Change Service Request (CSR)

This shall be an average hourly rate for the total of all staff needed to implement a CSR. All CSR charges will be billed at this averaged rate.

HMS recognizes that over the term of the contract, requirements not included in the RFP may need to be implemented in order to meet the needs of the Department or to adhere to legislative mandates. To implement these changes, HMS will charge the Department the following hourly rates:

- Base Years 1 through 3 - \$95.00 per person per hour
- Option Years 4 through 6 - \$105.00 per person per hour

4.3.4 Option Years

The proposal shall separately identify the cost of continuing to perform the requirements of this RFP for each additional option year. This should include all items as described in Section 4.3.2 Monthly Operations Cost above.

The total operations cost for the three options years of this contract is \$4,582,546.90. The monthly rate is broken down as follows:

- Option Year 4 (beginning July 1, 2011) - \$120,715.82 per month
- Option Year 5 (beginning July 1, 2012) - \$127,480.97 per month
- Option Year 6 (beginning July 1, 2013) - \$133,682.12 per month

These costs are for the support of application processing, eligibility determination, customer service, mailroom operations, premium billing and collections, reporting, system maintenance, Health and Dental Plan enrollment, survey processing, and quality assurance, and include the following:

- Salary and benefits for operations staff
- Expenses for yearly SAS 70 audits
- Lease costs, utilities, and data and telecom connectivity for our Des Moines office
- Administrative costs (including training, supplies, travel, system maintenance, and other administrative expenses)

The operations costs do not include postage to be paid by the Department for any mailings required in the RFP. As documented in **Section 3F.4** of the RFP, HMS will submit a monthly invoice to the Department for postage expenses incurred for mailing materials that HMS is responsible for disseminating.

4.3.5 Per Member Per Month Value

The proposal shall identify the per member per month ("PMPM") cost associated with increases in enrollment.

The per member per month (PMPM) rate proposed by HMS will be used to calculate increases in HMS's fee for contractually-permitted membership growth. In order to bill for PMPM charges, HMS must prove to the Department that our responsibilities and costs have increased by more than 15% in any given state fiscal year, as defined in the Special Terms section of the Contract included in the RFP, labeled as **Attachment 13** in the RFP.

Our PMPM rate, by contract year, is as follows:

- Base Year 1 (beginning January 1, 2009) - \$0.00
- Base Year 2 (beginning July 1, 2009) - \$3.14
- Base Year 3 (beginning July 1, 2010) - \$3.25
- Option Year 4 (beginning July 1, 2011) - \$3.36
- Option Year 5 (beginning July 1, 2012) - \$3.48
- Option Year 6 (beginning July 1, 2013) - \$3.60

Note that HMS does not propose a PMPM rate for year 1. Our implementation plan includes additional staff for the initial months of operation to facilitate a smooth transition. HMS anticipates that any additional work related to an increase in membership will be handled by this team and does not plan to bill the Department for any PMPM charges.